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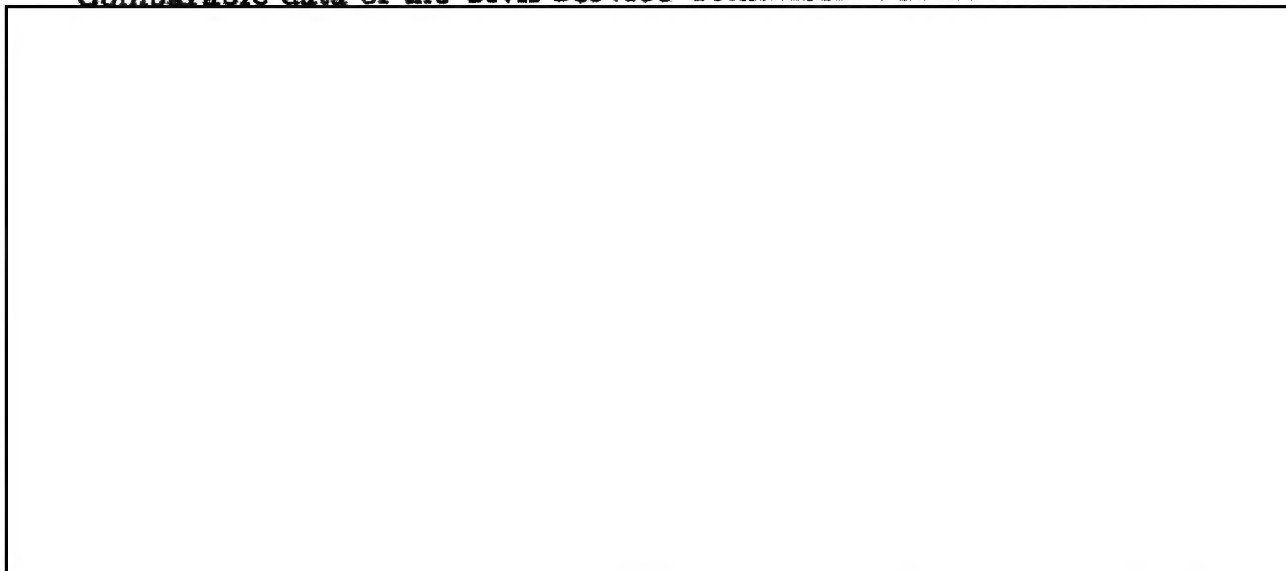
COST ESTIMATES

1. Overall Costs

We have consulted the Civil Service Commission concerning techniques of estimating the cost of the proposed retirement system and have accepted their conclusion that the precise cost cannot be actuarially computed without experience data under the proposed system which cannot be obtained until it is actually operative.

The cost of the benefits of the proposed retirement system can be reasonably estimated, however, by using the evaluations of the U. S. Treasury actuary as to the cost of current benefits of the Foreign Service retirement system. Applying this rate to the estimated payroll for employees who would be covered by our proposed system produces an estimated annual cost of \$10.3 million.

Comparable data of the Civil Service Commission actuaries indicated



2. Involuntary Retirement of Employees in GS-14 or Above under Age 50

In order to arrive at an estimate of the cost of the involuntary retirement feature of GS-14's and above, we have determined the average age, grade, and years of service of those employees who would be covered under the proposed system. We have eliminated for this purpose those employees who would be eligible for the optional retirement feature permitting retirement at age 50. Such average employee would be 44 years old, have 14 years of service, and have a high-5 average salary of GS-14 Step 3.

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GROUP 1
Excluded from automatic
downgrading and
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If this 44-year-old employee were involuntarily retired under the proposed system, he would draw an immediate annuity of \$4,064 and, based on present Civil Service mortality tables, could expect to receive \$113,798 in annuity payments during his lifetime. If he were retained until he achieves eligibility for optional retirement at age 50, his annuity would be \$5,806 and he could expect to receive a total of \$135,530 in annuity payments during his lifetime--this is \$21,700 more than the total annuity payments which he would receive if he were retired at age 44. (This principle holds true whatever the age at retirement; i. e., the later he is retired, the more he will draw in total lifetime annuity payments.)

We estimate that there would be no more than 5 such retirements per year. Since in fact the estimated lifetime annuities of these individuals would be less than if they were retained to optional retirement age, no additional cost to the fund would be involved.

ESTIMATED ANNUITY PAYMENTS

<u>If retired at age:</u>	<u>With service of:</u>	<u>Annuity would be:</u>	<u>Estimated lifetime annuity would be:</u>
60	30 years	\$8,709	\$148,053
55	25 years	7,258	145,150
50	20 years	5,806	135,530
44	14 years	4,064	113,798

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Basis of Cost Estimates for the CIA Retirement and Disability Fund

In preparing the cost estimates for the CIA Retirement and Disability Fund, the experience of the Foreign Service Retirement Fund has been used. In those areas where basic data is not available for the proposed system (viz., unfunded liabilities of the system, additional costs of retirement and disability benefits over Civil Service costs, and similar elements within the system), the Foreign Service experience has been used in the preparation of the cost estimates because the proposed legislation was modeled after the Foreign Service Retirement System and the benefits are identical.

The reasons for using the Foreign Service experience are as follows:

a. The Agency recruitment policy for those who would be covered by the proposed system is primarily through a program of competitive selection of high caliber personnel. This policy is quite comparable to the policy of recruitment of Foreign Service Officers. In both recruitment programs, college degrees are required and additional extensive preliminary training is required of officers prior to assignment to regular duties. The result of these recruitment policies is the development of a career program and the identification of the individuals with the mission of their organization. The CIA employees who would be subject to the proposed legislation and Foreign Service Officers are primarily professional or highly skilled technical personnel. Neither of these systems include clerical, custodial, or other classes of employees in which there is a high turnover of personnel as is the case with the Civil Service Retirement System.

b. Employees subject to the proposed legislation are employed primarily for overseas service in highly specialized duties. They will, of course, be subject to rotation to assignments within the continental limits of the United States but it is contemplated that a substantial portion of their service will be overseas at locations as required due to the exigencies of Agency program requirements. These conditions of service are similar to those faced by Foreign Service Officers. In

recognition of the problems of an overseas career service, the Foreign Service Retirement System has been developed and modified over the years. On the other hand, the Civil Service Retirement System was developed to meet the needs of service primarily within the United States.

c. The pattern of benefits under the proposed bill is the same as those under the Foreign Service System. Both systems contemplate an earlier retirement age than is provided for under the Civil Service System.

d. Due primarily to the characteristics of the Foreign Service as outlined in the above paragraphs, resignation rates are much lower in the Foreign Service than under the Civil Service. For every 100 employees entering the Foreign Service at age 25, 57 are retired under the Foreign Service System while under Civil Service for every 100 employees entering at age 25, only 13 are retired under the system. CIA experience in this regard is expected to be generally comparable to that of the Foreign Service.

In summary, the estimates submitted which are based upon Foreign Service experience are believed to be appropriate since we are dealing with comparable populations which will receive similar benefits. Therefore, we believe that pay out under the CIA Retirement and Disability Fund will be comparable to the pay out which has been experienced under the Foreign Service Retirement System.

It is believed that these estimates are "outside" estimates or maximums since there are elements which should result in somewhat reduced costs under the CIA Retirement System as compared with the Foreign Service Retirement System. One of these is the relatively larger numbers of higher grade officers in the Foreign Service System (Career Ambassadors, Career Ministers, FSO 1's) as opposed to grade GS-17 and above in CIA. In a total population of 3,718 Foreign Service Officers, 302, or 8.2%, are in these higher grades while in a total population of [redacted], are in comparable grades. The following table reflects these comparisons:

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Proposed Initiation and Operation of the CIA Retirement Fund

The CIA Retirement Fund would be initially established with receipts in the form of employee contributions of 6 1/2% of gross pay collected on current payrolls and matching Agency contributions to the Fund for each individual transferred by individual personnel action from the Civil Service Retirement System to the Central Intelligence Agency Retirement and Disability System. During the initial phase of operating the fund these would be the only receipts being deposited into the fund. After the individuals are designated, their retirement accounts as shown on Agency records representing Agency service and Civil Service records representing prior Government service would have to be reviewed and the total amount of employee contributions would have to be established for each individual. Arrangements would then be made with the Civil Service Commission to transfer the amount of employee contributions on an individual case basis by check from the Civil Service Commission to the Agency for deposit in the Central Intelligence Agency Retirement and Disability Fund. The cash in the fund would be retained in Agency accounts which are on deposit with the Treasurer of the United States.

The investment of the fund would be determined on the basis of mutual agreement with the Treasury Department. Although the details of the investment of the fund have not been completely agreed upon it is planned that these funds would be invested only in Government securities based upon an agreement between the Treasury Department and the Agency. In order to maintain the security of the Agency operations, specific details concerning the investment of the CIA Retirement Fund in Government securities would not be disclosed in any published reports but would be available to appropriate, cleared Treasury officials.

The attached tables reflect the build-up which is anticipated in the Fund on the basis of current contributions and projected retirements during the initial five-year period. These tables, however, do not reflect any estimate of the transfer of the employee contributions of individuals presently under the Civil Service Retirement Fund nor do they reflect the unfunded liabilities of the Government which would accrue during the period or which would develop in the fund as the result of transferring into it only the employee contributions while granting the employee full retirement

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credit under the fund for all prior service. It is not possible to estimate the unfunded portion of the liabilities since the specific individuals involved have not yet been identified and information concerning their prior service and related contributions to the Civil Service Retirement Fund has not yet been determined. It is estimated, based on the experience in the Foreign Service Retirement System, that unfunded liabilities of the Government for current service under the CIA Retirement System of approximately \$4.7 million per year would accrue when the program becomes fully operative.

The policy concerning appropriations for the unfunded liabilities would be established by the President in connection with the development of budgetary policies for each year. Generally speaking, it can be assumed that the policy would be to recommend the funding of the projected liabilities of the CIA Retirement Fund based on current service as it accrues. The problem of funding the projected liabilities based on prior service would be the same with the CIA Retirement Fund as it now is with the Civil Service and Foreign Service Retirement Funds. It is contemplated that consideration of this problem in the CIA Fund would be the same as that given the problem in the other funds.

Atts.

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Correction of original estimate to
reflect 3 GS-14's and over eligible
for annuity with 25 years service
even though under age 50

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